The Daily Dish

Actually, Dodd-Frank has Hurt Community Banks

MEGHAN MILLOY, PATRICK HEFFLINGER | AUGUST 31, 2016

New American Action Forum (@AAF) research shows the Consumer Financial Protection Bureau (CFPB) creates and finalizes rules 3.5 times faster than cabinet agencies. While the CFPB is fairly young, it has already finalized 49 rules, 26 of which have resulted in $2.8 billion in costs. AAF discovered CFPB had published 18 of their final rules before the public even learned of the rules in the Unified Agenda. The speediness of the CFPB's regulatory output has resulted in an error rate of roughly 25 percent.

On Tuesday the U.S. Treasury Department warned that U.S.-EU economic relations could be strained due to the recent decision by the European Commission to charge Apple $14.5 billion in back taxes. The move by the European Commission was a shock not only to the U.S. but to Ireland as well, whom Apple will be required to pay. The move by the commission has re-ignited calls for international tax reform.

Eakinomics: Actually, Dodd-Frank has Hurt Community Banks

Earlier this month, the White House's Council of Economic Advisors (CEA) released an issue brief defending the Dodd-Frank Act (Dodd-Frank) against the myriad studies that have shown its harmful effects on smaller community banks. In fact, just this year the Government Accountability Office (GAO) released a report showing that Dodd-Frank has created measurable burdens on community banks and credit unions and reduced the availability of credit to consumers.

That didn't seem to matter to the CEA. In its issue report, it cites several ambiguous statistics like "access to bank offices" and "geographic reach" as evidence that Dodd-Frank may have even been beneficial to community banks by helping to "neutralize some of the cost advantages that favored large banks based on their scale." (Which isn't really a good thing, either.) It also cites increasing asset growth and loan growth of banking institutions since the implementation of Dodd-Frank, but what it fails to mention is that, according to its own graphs, the asset growth and loan growth of community banks has grown at substantially slower rates than larger banks since 2010.

Perhaps one of the most shocking statistics on Dodd-Frank's effects is that there are now the lowest number of banks in the country since the Great Depression. In 2013 that number fell to below 7,000 for the first time since federal regulators began keeping track in 1934. Perhaps that was the authors' intent when they crafted Dodd-Frank, though. But as an oped column in the New York Times explained this year, "[w]hen regulations – not consumers – drive consolidation, banking system risk increases. Dodd-Frank's 'Wall Street' focus snares community banks in an increasingly complex web of rules designed for larger banks. As such, the law forces well-managed institutions to unnecessarily divert resources to compliance, or worse, to close their doors."

If Dodd-Frank was aimed at decreasing systemic risk in response to the Great Recession by breaking up big banks, then regulatory bank consolidation is a counterintuitive result of the law. Bloomberg has reported that bank mergers and acquisitions last year surged to almost $18 billion, the highest level since Dodd-Frank. This year, bank mergers will surge even higher with 9 out of 10 of the biggest deals so far citing to regulatory burden as their reason for consolidating. So the big banks are getting bigger.

Also counterintuitive is why the White House would continue to defend Dodd-Frank and its effects on community banks, when even the highest ranking democrats are calling for regulatory fixes to ease up Dodd-Frank's burdens on community banks. Just last weekHillary Clinton called for simplifying regulations for community banks and credit unions pledging to streamline financial regulation in an effort to increase access to capital for small businesses. She correctly added that many small and community banks "face complex regulations that don't really make sense for their size or mission."

So, to the CEA, I beg to disagree. Your issue report is not only inaccurate, it's a bad attempt at denying the truth that has become more and more clear since 2010: actually, Dodd-Frank has hurt community banks, their customers, and small businesses that rely on them for capital.